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INFO RUCPDO/DEPT OF COMMERCE WASHINGTON DC  
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RUEHDN/AMCONSUL SYDNEY 4014  
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RUEHPT/AMCONSUL PERTH 4074  
RUEHWL/AMEMBASSY WELLINGTON 5541

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SENSITIVE  
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TAGS: [EFIN](#) [ECON](#) [AS](#)  
SUBJECT: AUSSIE RESERVE BANK AGAIN SLASHES INTEREST RATES

REF: A) Canberra 1036; B) Canberra 1076; C) Canberra 1114

11. (U) Summary. On December 2, the Reserve Bank of Australia (RBA) announced a 100 basis points reduction in the cash rate to a record low of 4.25 per cent. RBA continues to prioritize demand ahead of inflation. End summary.

RBA SLASHES RATES AGAIN

12. (U) The RBA today slashed the official cash rate 100 basis points, to 4.25 per cent, tying a record low. In his statement, RBA Governor Glenn Stevens cited fragile financial market sentiment, further drops in commodity prices, weak economic conditions in major countries, and significant slowing in many emerging countries (i.e., China). While the Australian economy has been resilient, recent data shows a significant moderation in demand and activity - for example, earlier this week a key index of manufacturing fell for the sixth consecutive month to a fresh low, and all 12 manufacturing sectors declined.

13. (SBU) The RBA has been aggressive in easing monetary policy, slashing the cash rate target 300 basis points since early September. This plus the spending package which goes into effect next week is a big attempt to boost demand over the year ahead. The RBA maintains its 2-3 per cent inflation target but since September has given a clear priority to bolstering demand.

14. (SBU) Comment: Again, initial reactions from economists, industry, and consumer groups to the RBA move were uniformly positive. Reductions in the official cash rate reach borrowers quickly in Australia, where most mortgages are adjustable. Australia's major banks have already announced cuts in mortgage interest rates of 80-100 basis points, putting A\$193 a month back in the pocket of a holder of a typical A\$300,000 mortgage. The RBA's continued aggressive policy response aims to make the looming recession less deep than otherwise. More interest rate cuts are likely next year, with some analysts seeing them going as low as 3 per cent. End comment.

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